The State has in place a public process which complies with the requirements of Section 1902(a)(13)(A) of the Social Security Act.

STATE: New Mexico
DATE RCV'D 1-5-98
DATE APPV'D 8-27-98
DATE EFF 10-1-97
HCFA I/D 97-07

A

Approval Date 8-27-98
Effective Date 10-1-97

Plan # 97-07
Supersedes Plan # _____

~~SUPERSEDES: NONE~~ NEW PAGE

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Page 1

STATE NEW MEXICO
DATE REC'D MAR 31 1992
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Supersedes TN 90-20

COST RELATED REIMBURSEMENT OF NURSING FACILITIES

The New Mexico Title XIX Program makes reimbursement for appropriately licensed and certified Nursing Facility (NF) services as outlined in this material.

I. GENERAL REIMBURSEMENT POLICY:

The Human Services Department will reimburse Nursing Facilities(effective October 1, 1990,the SNF/ICF distinction is eliminated; see section VIII.) the lower of the following, effective July 1, 1984:

A. Billed Charges;

B. The prospective rate as constrained by the ceilings (Section V) established by the Department as described in this plan.

II. DEFINITIONS

Accrual Basis of Accounting. -- Under the accrual basis of accounting, revenue is recorded in the period when it is earned, regardless of when it is collected. The expenditures for expense and asset items are recorded in the period in which they are incurred, regardless of when they are paid.

Cash Basis of Accounting. -- Under the cash basis of accounting, revenues are recognized only when cash is received and expenditures for expense and asset items are not recorded until cash is disbursed for them.

Governmental Institution. -- A provider of services owned and operated by a federal, state or local governmental agency.

Allocable Costs. -- An item or group of items of cost chargeable to one or more objects, processes, or operations in accordance with cost responsibilities, benefits received, or other identifiable measure of application or consumption.

Applicable Credits. -- Those receipts or types of transactions which offset or reduce expense items that are allocable to cost centers as direct or indirect costs. Typical examples of such transactions are: purchase

discounts, rebates, or allowances; recoveries or indemnities on losses; sales of scrap or incidental services; adjustments of over-payments or erroneous charges; and other income items which serve to reduce costs. In some instances, the amounts received from the Federal Government to finance hospital activities or service operations should be treated as applicable credits.

Charges. -- The regular rates established by the provider for services rendered to both beneficiaries and to other paying patients whether inpatient or outpatient. The rate billed to the Department shall be the usual and customary rate charged to all patients.

Cost Finding. -- A determination of the cost of services by the use of informal procedures, i.e., without employing the regular processes of cost accounting on a continuous or formal basis. It is the determination of the cost of an operation by the allocation of direct costs and the proration of indirect costs.

Cost Center. -- A division, department, or subdivision thereof, a group of services or employees or both, or any other unit or type of activity into which functions of an institution are divided for purposes of cost assignment and allocations.

General Service Cost Centers -- Those cost centers which are operated for the benefit of other general service areas as well as special or patient care departments. Examples of these are: housekeeping, laundry, dietary, operation of plant, maintenance of plant, etc. Costs incurred for these cost centers are allocated to other cost centers on the basis of services rendered.

Special Service Cost Centers. -- Commonly referred to as Ancillary Cost Centers. Such centers usually provide direct identifiable services to individual patients, and include departments such as the physical therapy and supply departments.

Inpatient Cost Centers. -- Cost centers established to accumulate costs applicable to providing routine and ancillary services to inpatients for the purposes of cost assignment and allocation.

RCC. -- This is the Ratio of Charges to Charges. The bases or charges used in the RCC formula vary as to the costs to be allocated. The ratios may be expressed as follows:

1. ratio of beneficiary charges to total charges on a departmental basis.

2. ratio of beneficiary charges for ancillary services to total charges for ancillary services.

3. ratio of total patient charges by patient care center to the total charges of all patient care centers.

Provider -- The entity responsible for the provision of services. The provider must have entered into a valid agreement with the Medicaid program for the provision of such services.

Facility -- The actual physical structure in which services are provided.

Replacement Facility -- A facility which replaces a facility that was participating in Medicaid on July 1, 1984, or whose construction received Section 1122 approval by July 1, 1984, and where the basic structure of the facility to be replaced is at least twenty-five years old and has been in continuous use as a Skilled Nursing or Intermediate Care facility for at least twenty-five years or which facility has been destroyed by catastrophic occurrence and rendered unusable and irreparable, or condemned by eminent domain.

Closed Facility -- A facility which has been either voluntarily or involuntarily terminated from participation in the Medicaid program not to include termination for construction of a replacement facility.

Replaced Facility -- The facility replaced by a replacement facility as defined above.

Related Organization -- Organizations related to the provider by common ownership or control as defined by the provisions of the Medicare Provider Reimbursement Manual (HIM-15).

Imputed Occupancy -- The level of occupancy attributed for the purpose of calculating the reimbursement rate.

Owner -- The entity holding legal title to the facility.

III. DETERMINATION OF ACTUAL, ALLOWABLE AND REASONABLE COSTS AND SETTING OF PROSPECTIVE RATES

A. Adequate Cost Data

1. Providers receiving payment on the basis of reimbursable cost must provide adequate cost data based on financial and statistical records which can be verified by qualified auditors. The cost data must be based on an approved method of cost finding and on the accrual basis of accounting. However, where governmental institutions operate on a cash basis of accounting, cost data on this basis will be acceptable, subject to appropriate treatment of capital expenditures.

2. Cost finding -- the cost finding method to be used by NF providers will be the step-down method. This method recognizes that services rendered by certain non-revenue-producing departments or centers are utilized by certain other non-revenue-producing centers. All costs of non-revenue-producing centers are allocated to all centers which they serve, regardless of whether or not these centers produce revenue. The cost of the non-revenue-producing center serving the greatest number of other centers, while receiving benefits from the least number of centers, is apportioned first. Following the apportionment of the cost of the non-revenue-producing center, that center will be considered "closed" and no further costs will be apportioned to it. This applies even though it may have received some service from a center whose cost is apportioned later. Generally when two centers render services to an equal number, that center which has the greater amount of expense will be allocated first.

B. Reporting Year -- For the purpose of determining a prospective per diem rate related to cost for NF services, the reporting year is the provider's fiscal year. The provider will submit a cost report each year.

C. Cost Reporting -- At the end of each fiscal year the provider will provide to the state agency or its audit agent an itemized list of allowable cost (financial and statistical report) on the N.M. Title XIX cost reporting form. This itemized list must be submitted within 90 days after the close of the provider's cost reporting year. Failure to file a report within the 90-day limit,

unless an extension is granted prior to the due date, will result in termination of Title XIX payments. Extensions must be requested in writing from the Medical Assistance Division prior to the due date of the cost report.

In the case of a change of ownership the previous provider must file a final cost report as of the date of the change of ownership in accordance with reporting requirements specified in this plan. The Department will withhold the last month's payment to the previous provider as security against any outstanding obligations to the Department. The provider must notify the Department 60 days prior to any change in ownership.

D. Retention of Records.

1. Each NF provider shall maintain financial and statistical records of the period covered by such cost report for a period of not less than four years following the date of submittal of the New Mexico Title XIX cost report to the State Agency. These records must be accurate and in sufficient detail to substantiate the cost data reported. The provider shall make such records available upon demand to representatives of the State Agency, the State Audit Agent, or the Department of Health and Human Services.

2. The State Agency or its audit agent will retain all cost reports submitted by providers for a period of not less than three years following the date of final settlement of such reports.

E. Audits

1. Audits will be performed in accordance with 42 CFR 447.202.

Desk Audit. Each cost report submitted will be subjected to a comprehensive desk audit by the state audit agent. This desk audit is for the purpose of analyzing the cost report. After each desk audit is performed, the audit agent will submit a complete report of the desk review to the State Agency.

Field Audit. Field Audits will be performed on all providers at least once every three years. The purpose of the field audit of the provider's

financial and statistical records is to verify that the data submitted on the cost report are in fact accurate, complete and reasonable. The field audits are conducted in accordance with generally accepted auditing standards and of sufficient scope to determine that only proper items of cost applicable to the service furnished were included in the provider's calculation of its cost and to determine whether the expenses attributable to such proper items of cost were accurately determined and reasonable.

After each field audit is performed, the audit agent will submit a complete report of the audit to the State Agency. This report will meet generally accepted auditing standards and shall declare the auditor's opinion as to whether, in all material respects, the costs reported by the provider are allowable, accurate and reasonable in accordance with the State Plan. These audit reports will be retained by the State Agency for a period of not less than three years from the date of final settlement of such reports.

F. Overpayments. All overpayments found in audits will be accounted for on the HCFA-64 report to HHS no later than the second quarter following the quarter in which found.

G. Allowable Costs. The following identifies costs that are allowable in the determination of a provider's actual, allowable and reasonable costs. All costs are subject to all other terms stated in HIM-15 that are not modified by these regulations.

1. Cost of meeting certification standards. These will include all items of expense that the provider must incur under:

   a. 42 CFR 442.

   b. Sections 1861(j) and 1902(a)(28) of the Social Security Act;

   c. Standards included in 42 CFR 431.610;

   d. Cost incurred to meet requirements for licensing under state law which are necessary for providing NF service.

2. Costs of Routine Services. Allowable costs shall include all items of expense that providers incur to provide routine services, known as operating costs.

a. Operating Costs include such things as:

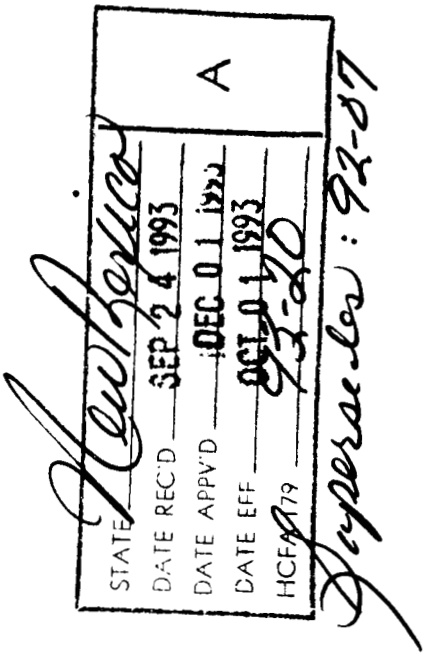
(1) Regular room.

(2) Dietary and nursing services.

(3) Medical and surgical supplies (including syringes, catheters, ileostomy, and colostomy supplies).

(4) Use of equipment and facilities.

(5) General services, including administration of oxygen and related medications, hand feeding, incontinency care, tray service and enemas.



(6) Items furnished routinely and relatively uniform to all patients, such as patient gowns, water pitchers, basins and bed pans.

(7) Items stocked at nursing stations or on the floor in gross supply and distributed or used individually in small quantities, such as alcohol and body rubs, applicators, cotton balls, bandaids, laxatives and fecal softeners, aspirin, antacids, OTC ointments, and tongue depressors.

(8) Items which are used by individual patients but which are reusable and expected to be available, such as ice bags, bed rails, canes, crutches, walkers, wheelchairs, traction equipment, oxygen administration equipment, and other durable equipment.

(9) Special dietary supplements used for tube feeding or oral feeding even if prescribed by a physician.

(10) Laundry services including basic personal laundry.

(11) Oxygen for emergency use -- The Department will allow two options for the purchase of oxygen for patients for whom the attending physician prescribes oxygen administration on a regular or on-going basis:

a) The long term care facility may purchase the oxygen and include it as a reimbursable cost in its cost report. This is the same as the method of reimbursement for oxygen administration equipment; or

b) The Department will make payment directly to the medical equipment provider in accordance with procedures outlined in Medical Assistance Manual Section 310.08, Medical Supplies, and subject to the limitations on rental payments contained in section 310.0805 (B).

(12) Managerial, administrative, professional, and other services related to the providers operation and rendered in connection with patient care.

b. Facility costs, for purpose of specific limitations included in this plan, include only depreciation, lease costs, and long-term interest.

(1) Depreciation is the systematic distribution of the cost or other basis of tangible assets, less salvage value, over the estimated useful life of the assets.

a) The basis for depreciation is the historical cost of purchased assets or the fair market value at the time of donation for donated assets.

b) Historical cost is the actual cost incurred in acquiring and preparing an asset for use.

c) Fair market value is the price for which an asset would have been purchased on the date of acquisition in